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NATIONAL AVIATION COMPANY OF INDIA LIMITED

Dear Shri Prakash,

Subject: Proposal of AAI to levy user Development Fee at Trivandrum Intl. Airport

This has reference to your letter No AERA/20010/AAI-UDF-2009-10/780 dated 26th March,2010 on the above subject.

Our comments are as under :

The cost of the Trivandrum Airport project has increased to Rs.289.60 crores from the earlier estimated cost of Rs.245.58 crores . The paper put up by Airport Authority of India for levy for User Development Fee gives no comments for cost control measures to make the project self sufficient and to reduce levy of the User Development Fee on the passengers. It is felt that the non consideration of the TNL and RNF charges, which is a major revenue earner for Airport Authority of India within the gamut of aero charges, does not reflect correct picture. This must be considered especially since the Trivandum is an Airport Authority of India controlled/owned Airport. This also is in line with the Single Till methodology decided by AERA. . The non consideration of the non aeronautical revenue in their totality also goes against the methodology adopted by AERA. AAI is also taking only 30% of the non aeronautical revenue in their revenue assumptions.

With reference to the consultation paper circulated by AERA on the above subject. Our para-wise comments are as under :

1. Return – AAI has calculated the Target Revenue taking the value of the existing assets at Trivandum Airport . The existing assets as per our understanding should not form part of the return on capital employed as this is not part of the project cost for the New Terminal.

2. Regulatory Asset Base (RAB) - In the RAB, the book value of the existing asset of Rs 78 crores is again being considered. This should not form part of the RAB as these are old assets which are not part of the current project and are old assets.

3. Traffic Projections – The international passengers comprise 75% of the total passengers through put at the Trivandrum Airport The traffic projections take a growth of 10% only for International passengers and 15% for domestic passengers Even though, the international traffic has risen at a higher rate than domestic passengers as per the CAGR of last 8 years. This needs to be reviewed and revised to a growth rate of 15% p.a. for international passengers also.

   - This terminal is not proposed as an integrated terminal for both domestic and international operations, therefore, domestic pax projections have no relevance.

4. Aeronautical and Non-aeronautical revenues - Only limited aeronautical revenues have been considered with no revenues from TNLC and RNFC being considered. There are other areas like licence fee, Extension of Watch Hours, Counter charges etc. which needs to be added to the revenue stream to give a more comprehensive picture. Even the non aeronautical revenues have not been considered in totality. The revenue from City Side Development has also not been considered and its omission is not understood clearly. It is again reiterated that this policy of AAI is against the Single Till approach decided by AERA in their consultation paper.

5. Repairs and Maintenance – The project being new should not require a hefty increase of 100% in the repair and maintenance expenses even though the terminal space has increased to 32,000/- sq.mt. A more reasonable increase based on the life of the equipments and systems and other areas need to be considered. Normally all equipments which would be new under warranty by the manufacturers & should not therefore require heavy maintenance costs.

6. Depreciation –It is felt that the depreciation rate should be the actual rate as per the accounting policy of AAI in respect of the assets and not a straight line method. In regard to the existing assets though it is our view that they should not be considered even then in case the AERA feels their part of the assets , their value as per AAI books of accounts should only be considered.

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7 In regard to the applicability of User Development Fee and as desired by AERA , it is for consideration that the applicability should be for 25 years with a reduced User Development Fee rate for International passengers

8. Collection charges on User Development Fee - the rate of Rs.5/- per departing passengers is too low for the airlines to recover the cost of manpower, establishment, services etc. spent on such collection. It is requested that AERA should consider revising this to a more reasonable percentage of 5% on the User Development fee charges. The permissible collection charge on PSF is 2.5%.

9. NACIL feels that there should be a differential charge for the low cost carrier or provision of a separate terminal. There could also be lower charges applicable to the LCC with lesser provision of facilities even within the same terminal. If AERA could look into the same, it would further help in passenger growth to the Airport and the airline.

10. A provision of an integrated terminal instead of a stand alone international terminal would help the Airlines and the passengers going a long way in providing passengers comfort.

11. The imposition of the UDF could also lead to diversion of passenger traffic to neighboring airports like Cochin as the catchment area for the passengers is not Trivandrum but the areas in and around Trivandrum. Further, Cochin International Airport which is a green field airport does not levy any UDF and as such introduction of UDF out of Trivandrum seems unjustifiable.

12 Employee costs need to be moderated to not more than 8-10% on annualized basis.

At present with 75% of 1.9 million pax using the airport, the proposed UDF is very high and needs to be computed after taking into account observations made above as well as the traffic projections

Regards,

(Mrs Vineeta Bhandari) 9/4/2010

Shri Sandeep Prakash
Secretary
AERA
Rajiv Gandhi Bhawan
New Delhi-110 003